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Current Support Brief

COMMUNIST CHINA MAY REVISE THE PRICE STRUCTURE
FOR THE THIRD FIVE YEAR PLAN (1963-67)



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COMMUNIST CHINA MAY REVISE THE PRICE STRUCTURE
FOR THE THIRD FIVE YEAR PLAN (1963-67)

A general readjustment of internal prices in Communist China, the first since 1958, seems to be indicated by the recent creation of a National Price Commission and a General Commodity Control Bureau directly under the State Council; by the adoption of new but undisclosed regulations on price control; and by the discussion in the press of the need for prices more in line with current costs and changed priorities. A large increase in the number of individual price changes also has been noted in recent months, suggesting that a general readjustment of prices already may be underway. The Chinese press and other sources have reported or implied reductions in official prices of certain foodstuffs, consumer goods, petroleum products, agricultural tools produced by handicraft industries, and electricity in rural areas and increases in the prices of construction materials and possibly of raw cotton and textiles.

1. Need for Price Revision

A general revision of prices in Communist China seems to be called for as the final step in a series of "readjustments" that Peking has been making in order to overcome the chaotic production practices of the "leap forward" period (1958-60). As far as can be determined from the limited data available, there has been no substantial revision in official prices since 1958. Many internal price relationships established in 1958 and earlier are now bound to be out of line with relative costs of production. During the excesses of the "leap forward," costs of production must have risen as a result of the reported waste of raw materials, poor maintenance of capital equipment, inflation of industrial payrolls, and the general breakdown in accounting practices stemming from the industrial decentralization and uncoordinated decision-making at provincial and local levels. The mounting costs of production apparently remained a problem beyond the "leap forward" period, for the Chinese have reported that costs increased substantially in some industries in 1961 compared with 1960 as a result of rising labor costs per unit of output, inaccurate

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cost accounting, illegal buying and selling of raw materials, and rising depreciation per unit of output. 1/ If the pressures of the "leap forward" had continued, the Chinese might have been forced to raise prices substantially in order to cover rising costs. Some relief from rising costs came in 1962, however, when the effect of closing many small, inefficient plants began to be felt and when supplies consisted primarily of output from the modern and lower cost plants.

A general revision of prices also may be called for as a preliminary step in the assignment of value targets for a more conservative Third Five Year Plan (1963-67), which probably will be oriented more closely toward agriculture than were previous plans. Details of this plan apparently are now being drafted. The redirection of industrial capacity toward broader support of agriculture and light industry that has taken place since 1961 -- if continued well into the Third Five Year Plan -- will involve a change in the mixture of products demanded from industry, production of new products with initially high costs, and substantial changes in the composition of investment compared with previous plans. All of these changes, together with accompanying changes that would be required in the transport and trading networks, will require a careful reexamination of relative prices.

2. New Price Machinery

Early in April the State Council established the National Price Commission and issued new regulations on prices. When these decisions were ratified 1 month later by the Standing Committee of the National Peoples Congress, the establishment of a General Commodity Control Bureau and a State Organization Commission also was announced. 2/ No details were released about the functions of these new organizations, and no official word has been received about the content of the new price regulations. It appears, however, that these decisions of the State Council are intended to achieve a broad revision of prices and a tighter control over distribution of basic commodities.

Developments relating to price revisions during the first half of 1963 have followed a pattern close to that of the first quarter of 1958, when the

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Second Five Year Plan (1958-62) was launched. During the first half of 1958 the State Council adopted new regulations on price control and approved reductions in the prices of some consumer goods as well as in passenger fares and freight rates on airlines; in the previous year the Council had authorized increased purchase prices of some agricultural products in relatively short supply. The price changes were said to have been ratified in 1958 by a "National Price Commission of the State Council." No further mention of a price commission was made until the announcement in April of this year established the new National Price Commission, suggesting that the commission may be an ad hoc agency used primarily when the regime completes one long-term plan and begins drafting another. It was announced at about the same time in 1958 that, as part of the decentralization of decision-making, a "General Commodity Supply Bureau" had been transferred from a position directly under the State Council to a subordinate position under the State Economic Commission. The General Commodity Supply Bureau of 1958 may have continued to function as a subunit of the State Economic Commission, but it seems likely that the newly instituted General Commodity Control Bureau will replace the previous bureau and will enjoy a higher status directly under the State Council as part of the general return to centralized controls that the Peking leadership initiated in 1961-62.

3. Price Changes in 1963

The price reductions already made in 1963 appear to have been the result of the following factors: (a) a reduction in some costs of production; (b) state-sanctioned selling of overstocked, low-quality items at a loss; (c) narrowing of markups in the trading network; (d) elimination of some commercial intermediaries; and (e) shortening of transportation routes from producer to consumer. The price increases that have been noted, on the other hand, apparently reflect policy decisions based on short supply of some commodities and the need to stimulate production of certain agricultural products.

Although no details of the new price directives have been released, they probably are tied closely to other control measures adopted by the State Council in recent months. These controls are designed in part to

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correct the inefficiencies and corrupt accounting practices that were exposed during a nationwide inventory of stocks carried out during 1962. No specific regulation has been announced on the increasingly serious need to combat speculation and "spontaneous tendencies toward capitalism" arising from widespread trading in food and consumer goods on free and black markets.* It is probable that measures to control private trading are embodied in other regulations, particularly those dealing with tax collection and price control. A campaign of mass education -- the "5-anti" campaign** -- against various forms of illegal activity has been carried out since early in 1963, and reference has been made recently to punishments and to cash fines of up to 3,000 yuan. 3/ However, no incidents have been reported of violators being executed, as has been the case in the USSR since the "death decrees" were authorized in June 1961.

4. Debate on Price Policy

Frank discussions in the press of price policies most appropriate to China began in 1961 and have continued through the first half of 1963. Initially the discussions explored the pros and cons either of a policy based on tightly controlled prices that reflect priorities more than costs or of a contrasting system in which all costs are met and nearly all economic activity operates on a profit-making basis. In the latter part of 1962 the tone of discussions changed to more specific and one-sided recommendations. An article in the January 1963 issue of Economic Research called for investigations that, in effect, would permit the state to adjust prices in line with current costs and with the new and

* Prices on the free markets, which were reported early in 1962, to have been very high, declined during the latter half of 1962 because subsidiary foods sold in these markets became more plentiful and because the authorities sometimes took action to reduce such prices. Nevertheless, prices on the free markets remain higher than official prices.

** The "5-anti" campaign of 1963 has included prohibitions against the following activities: leaving rural areas for the cities, leaving public jobs or farms to engage in trading, escaping to Hong Kong, participating in the black market, and engaging in any form of "corruption."

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different demands of the current program to modernize agriculture.* 4/ Hsueh Mu-chiao, Deputy Chairman of the State Planning Commission, writing in Red Flag of 16 April 1963, discussed guidelines for working out a price policy. He warned on the one hand against "blindly following" the interaction of supply and demand to determine prices and on the other against oversimplified administrative measures to set commodity prices. Specifically, Hsueh called for a price policy that would stress (a) differential prices that would be based on differences in quality of products, (b) prices that would permit production units to recover costs and make some profit (implying less tolerance of subsidies to high-cost producers), (c) free market prices that would be close to fixed state prices, and (d) increased prices of high-grade consumer goods to restrict their consumption and to remove excess purchasing power. 5/ These general guidelines probably constitute the core of the new directive on prices.

* Prices could be used to encourage modernization of agriculture by lowering the costs of agricultural inputs and by raising the procurement prices of farm products. The prices of some inputs have already been reduced, but the Chinese may postpone raising farm procurement prices until increases in the supply of consumer goods are sufficient to match a rise in farm income.

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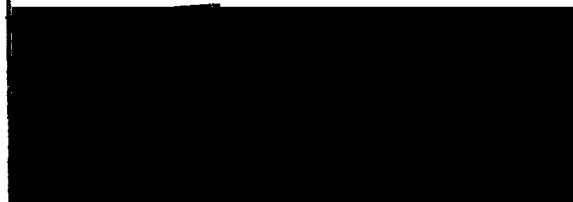
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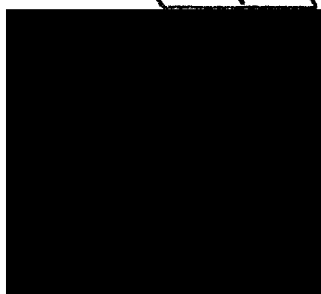
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